



Housing Programs

Multi-Family Housing Guaranteed Loans

538 Program

Committed to the future of rural communities.

Program Objective

The goal of the Rural Rental Housing Guaranteed Loan Program is to serve the housing needs of rural families of low and moderate income.

We are able to achieve this goal thanks to our partnerships with public and private lending institutions.

This program was first authorized through a provision in the Housing Opportunity Program Extension Act of 1996.

The program was designed to complement other affordable housing programs and to meet the needs of rural America not being served with the existing Section 515 Direct Rural Rental Housing Program - mainly residents with low and moderate incomes.

Program Funding

Each fiscal year, the National Office issues a Notice of Funding Availability (NOFA) in the Federal Register.

The purpose of the NOFA is to announce the funding level for the year and the application deadline.

Regulations & Guidelines

The program is guided by several parts of existing regulation found in 7CFR 1924-A, 7 CFR 3560, 1940-G, 1940-L, 7 CFR 3565, 1980-A, 1980-E, and 1980-I.

Both the lender and borrower are responsible for reviewing and complying with applicable regulations and requirements set forth in the NOFA announcement.

If there are any discrepancies between the NOFA and the Application Package, or any verbal/written instructions from Agency personnel, the NOFA takes precedence.

Eligibility Requirements

Eligible *borrowers* under the program include nonprofit corporations, public bodies, and for-profit organizations.

Eligible *households* must be certified as very low, low, or moderate income (up to 115% of the median for the area) upon initial occupancy. Mixed income projects are encouraged.

The program is limited to *rural areas* as defined for the Housing Programs Section 502 and 515 programs.

Generally, communities are eligible if the population is not more than 10,000. Communities up to 20,000 in population may be eligible if there is a serious lack of mortgage credit.

Eligible *lenders* are those currently approved and considered eligible by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank members, or the Department of Housing and Urban Development for guaranteed loan programs supporting multifamily housing.

State Housing Finance Agencies are also considered eligible lenders if they demonstrate they have the ability to underwrite, originate, process, close, service, manage, and dispose of multifamily housing loans in a prudent manner.

Other lenders can enter into a correspondent bank relationship with approved lenders in order to participate in the program.

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Housing Programs

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USDA, Director,
Office of Civil Rights

1400 Independence Ave. SW
Washington, DC 20250-9410

800-795-3272 (voice) 202- 720-6382 (TDD)

Eligible *housing types* can be new or existing, rehabilitation, rental mobile homes and parks and congregate housing, but the focus must be on the creation of new units, not refinancing.

Rehabilitation must be classified as moderate or substantial.

Unit costs may not exceed limitations listed under Section 207c of the National Housing Act, which gives per-unit maximums.

Loan & Guarantee Terms

The terms of the guaranteed loans may be for a minimum of 25 years and up to 40 years but can not exceed the useful life of the collateral. Loans must be fully amortized. Balloon payments are not permitted.

The rates of the guarantee are negotiated between the lender and the applicant, and are required to be fixed. Maximum rates are set each year by USDA (annual NOFA). Historically this is the 10-year Treasury Note Rate +250 basis points.

A first mortgage or deed of trust is required for all guarantees.

For nonprofit corporations, the amount of the loan is limited to 97% of the value or the development cost, whichever is lower.

For-profit owner loans are limited to 90% of the value or development cost, whichever is lower.

The maximum guarantee for all loans is 90%. The guarantee covers up to the unpaid principal, interest, and other allowable fees.

Guarantees may be transferred subject to agency approval.

The agency may guarantee a combined construction and

permanent loan.

The agency liability under any guarantee will decrease or increase, pro rata, with any increase or decrease in the amount of the unpaid portion of the loan, up to the maximum amount specified in the guarantee document.

The agency will guarantee construction contracts (not to exceed 90% of the work in place) which have credit enhancements to protect the government's guarantee.

Rent Restrictions & Subsidies

Maximum rent is 30 percent of 115% of median income for the area.

Average rent of all units is 30 percent of 100% of median income, adjusted for family size.

At least 20% of the loans guaranteed shall be provided with interest credit by HP to the extent necessary to reduce the rate to the Applicable Federal Rate as defined in Section 42 of the Tax Code.

Required Program Fees

An application fee of \$2,500 will be collected when the formal application is filed.

The initial loan guarantee fee is 100 basis points (1%) payable to HP at the loan closing.

For combination construction and permanent financing, the agency reserves the right to charge an additional fee on the portion advanced during construction.

The annual servicing fee is 50 basis points (1/2%) of the out-standing balance due annually at the time of the annual report.

Payment Under Guarantee

Once the lender has disposed of the property, or the agency has agreed to accept an assignment of the loan or conveyance of title to the property, the lender may file a claim for the guaranteed portion of allowable losses.

The agency, in its sole discretion, may choose to obtain an assignment of the loan from the lender or conveyance of title obtained by the lender through foreclosure or a deed-in-lieu of foreclosure.

The loss is paid in a pro-rata 90/10 split from the first dollar loss.

Preservation

The loan must remain affordable to eligible households for the term of the loan, unless the project is determined to be no longer needed or the lender acquires title to the property through foreclosure or deed-in-lieu of foreclosure.

This requirement is statutory.

Borrowers will need to understand the ramifications of this requirement.

Application Process

HP will issue an annual NOFA in the Federal Register.

The NOFA will set forth the following:

- ◆ the deadlines for application
- ◆ the interest rate
- ◆ other requirements including additional guidance on the criteria for selection of loan guarantees.

For more information about this program or application requirements please contact your local office, or the state office at (406) 585-2518.

